

Housing

GOAL FOR 2020

Ensure that the housing needs of all Californians are met by increasing the supply, choice and affordability of homes in all communities.

“Together with education and job creation, safe, decent, and affordable housing is the necessary third ingredient to foster and sustain a vibrant community.”

—Governor Gray Davis, Governor's Budget Summary, 1999-2000



Today's Issues

California is facing an extreme housing shortage. We have not built enough housing for more than a decade and what we have is too expensive for most Californians. Decent, affordable housing is a fundamental element of the American Dream and California's economic prosperity. We must do a better job of providing desirable, affordable housing choices in livable communities throughout the State.

SUFFICIENT HOUSING SUPPLY

A major barrier to increased housing production is the current state-local fiscal structure. This fiscal structure prevents many local governments from realizing reliable and adequate funding sources to provide services and infrastructure for new residents. Instead, local governments are encouraged to seek retail over housing development for retail sales tax generation.

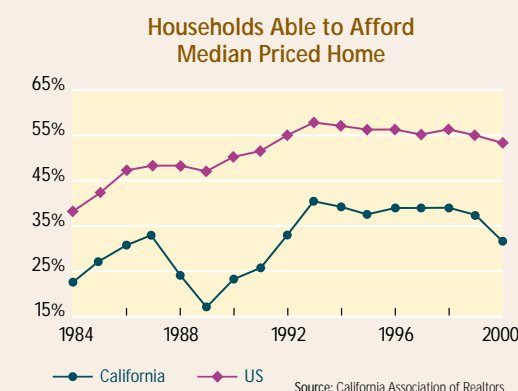
Another barrier is the residential entitlement process, which often results in extensive delays for approvals and environmental reviews.* Local governments are often overly reactive to "Not In My Back Yard" (NIMBY) concerns about new housing development, even when the development is consistent with approved General Plans.

"Should annual rates of housing production during the next twelve years mirror those of the last twelve, the future of California will be one of extreme shortages."

John Landis, Professor,
U.C. Berkeley, "Raising the Roof,"
for the California Department
of Housing and Community
Development (HCD)
May 2000

Some California Housing Facts:

- California has a housing shortage that is growing each year — our current deficit is approximately 400,000–500,000 homes, increasing by 50,000–70,000 each year.
- California has nine of the nation's 10 least affordable housing markets.
- California home ownership rate is 49th in the nation (56% compared to the national average of 67%).
- Between 1997 and 1999, San Francisco created seven new jobs for each new housing unit built, Los Angeles 6:1, Orange County 5:1. The recommended ratio is 1.5:1.
- Almost half of all California renters and 91% of low income renter households spend more than the recommended 30% of their income on rent.
- 40% of children in renter households live in overcrowded conditions.
- According to HCD, about 40% of cities and counties do not have housing plans in compliance with California State law. At present, there are few sanctions for lack of compliance except legal action.



* For details, refer to "Raising the Roof," www.hcd.ca.gov.

"I learned about this program from research I had done on the Internet looking at various first-time homebuyers programs. I talked with my loan office and got introduced to CHFA and the partnership programs with the City of Pasadena which provide down payment assistance and closing cost assistance. Without this help, I would not have been able to afford this (house) because of my salary plus my responsibilities with a child, my little daughter. The house payment I now have for this two-bedroom townhouse is less than the rent I was paying on a one bedroom apartment."

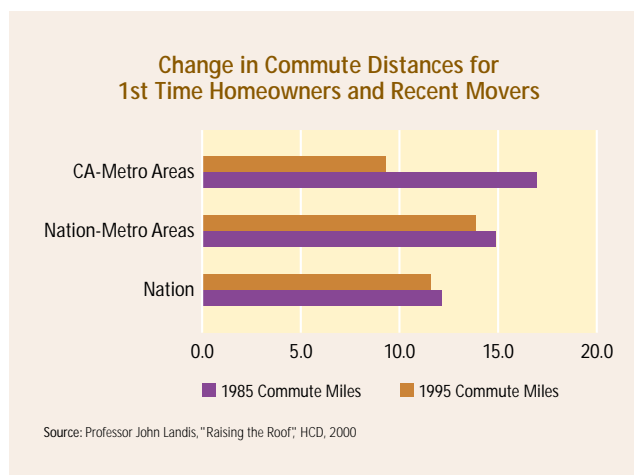
David Bradford
Participant in the California Housing
Finance Agency (CHFA) Affordable
Housing Partnership Program (AHPP)

The result is higher prices when housing is finally built. Housing production has been impeded by disputes over long-standing construction defect and related defect litigation issues. For these and other reasons, many cities, counties and regions do not meet housing needs as established by State housing planning targets.

HOUSING AFFORDABILITY

California faces housing affordability challenges for renters and owners at most income levels. The expansion of this crisis from low-wage workers to other income levels demonstrates the impact that this shortage has on an expanding number of Californians. First, for more than two decades, low-income Californians have had difficulty finding decent, accessible, affordable housing. Low-income households pay too great a share of their income on rent, more people are living in overcrowded conditions and for most, home ownership is not even a possibility.

Second, for an increasing number of middle income families—including households headed by teachers, nurses and firefighters—insufficient production of homes and rental units results in high prices and the cost of home ownership is out of reach.



LOCATION AND DEVELOPMENT PATTERNS

Housing production has not kept pace with job growth, in quantity or by location. Increasingly, people must live far from work to find affordable housing, which increases commute time and cost, and decreases personal and family time. Long distance commutes also exacerbate the limited options for senior and child care. Housing in more distant locations is less likely to be served by transit, and shopping and services are not easily accessible because current zoning regulations separate commercial and residential land uses.

New housing developments also tend to be built at densities too low to produce a sufficient supply of housing on available land. At the same time, abandonment of older existing communities wastes prior infrastructure investments and diminishes the quality of life for those left behind.

These development patterns erode a sense of community and make it difficult to meet future housing needs. Modest increases in density will allow communities to maximize limited land resources and infrastructure investments as well as reduce the cost of producing housing. Changes in zoning codes, improvements in community design, and restoration of underutilized and sometimes contaminated urban lands will help meet our housing needs and create more livable communities.

“Housing is the linchpin for sustainable growth in California, and a good state housing program is the underpinning of a cost-effective infrastructure investment program.”

Sunne Wright McPeak,
Bay Area Council, 2000

Actions Taken

- In 2000-2001, \$450 million in new funding for housing—the first state housing dollars in more than a decade. This initiative included funding for the nationally innovative Jobs-Housing Balance Improvement Program, Interregional Partnership Program, Downtown Rebound and multi-family rental unit production.
- California Housing Finance Agency (CHFA) met the Governor’s \$1 billion annual goal to finance mortgages for low to moderate-income first-time homebuyers in both 1999-2000 and 2000-2001.
- Since May 2000, the State Treasurer has committed \$560 million for low-and moderate-income home loans through the Pooled Money Investment Account’s (PMIA’s) purchase of Community Reinvestment Act mortgages.
- In 2000, the State Treasurer, through the California Debt Limit Allocation Committee, adopted sustainable development and community reinvestment criteria for the allocation of \$1.6 billion annually, which includes low cost financing for affordable housing.
- The Governor, the Legislature and voters approved \$500 million in General Obligation Bonds to provide farm and home loans to eligible California veterans.



Century Housing’s Villages at Cabrillo, a collaboration with U.S. Vets, is an unprecedented residential social services complex on the former U.S. Naval 26-acre housing site in Long Beach, California

PHOTO CREDIT: CENTURY HOUSING, CULVER CITY, CALIFORNIA

CASE STUDY

Creating Livable Communities: State Incentives in Minnesota

The Metropolitan Livable Communities Act of 1995, passed by the Minnesota State Legislature, relies on incentives to promote walkable neighborhoods, affordable housing, and brownfields cleanup. The funds for the program come from a reallocation of existing tax sources. The Metropolitan Council, a regional planning and operating agency, administers the program. Communities that apply for funding through the program must first choose to participate in a housing incentives program and work toward housing goals developed in cooperation with the Council. To date, the program has awarded \$69 million in financial support for projects throughout the region, which has resulted in almost \$2 billion more in additional public and private funding.

Source: Urban Land Magazine, April, 2001

Investing for California's Future

The Commission has identified the following priorities for meeting our housing needs:

- *A statewide housing production goal of at least 200,000 units per year, within 5 years*
- *Financial incentives for increased housing production linked to goals for regional housing plans and sustainable development criteria*
- *Strengthened State Housing Element law*
- *Reform of the state-local fiscal structure*
- *Convening of stakeholders to resolve the construction defect and defect litigation issue*
- *Removal of regulatory barriers*
- *Improvement of the process for planning and locating new housing*
- *More efficient use of land resources*

Recommended Options

The following recommended options will help achieve our priorities:

FINANCING AND FISCAL POLICY

- Reform the State-local fiscal relationship so that communities can promote increased housing production and the services to support new residents. Provide incentives for efficient use of land to meet regional housing planning goals. Incentive options include: swap State-share property tax for local-share sales tax; cap the 1992 property tax shift, with economic triggers; and/or implement regional tax revenue sharing.
- Use bond financing to support ongoing construction of affordable housing.
- Expand funding and incentives for brownfield cleanup, redevelopment and infill development.
- Establish a permanent housing incentive fund to reward communities that increase housing production, building on California's Jobs-Housing Balance Improvement Program.



PHOTO CREDIT: LOCAL GOVERNMENT COMMISSION

48 *Mixed-use development: Located in the Uptown District of San Diego, California, this transit-oriented development consists of transportation, retail and housing*

CASE STUDY

New Housing Sites: Mountain View, California

In a creative reuse of existing facilities, a 1960s vintage strip mall in Mountain View, California, recently became a transit-oriented, mixed-use neighborhood called The Crossings. The 18-acre site, originally a struggling mall, now includes stores, offices and more than 500 dwelling units—apartments, condominiums and single-family homes. Housing density at the site is nearly 30 units per acre. The project, completed in 1998, is adjacent to a new CalTrain commuter station. The Congress for New Urbanism sees great potential for use of older malls as infill sites for housing and other uses.

Source: Urban Land Magazine, February 2001

IMPROVED PLANNING

- Provide incentives for local and regional efforts to engage in multi-disciplinary and interregional planning.
- Target State programs and resources to communities with housing elements in compliance with State Housing Element law. Consider State sanctions if incentives do not promote compliance.
- Adopt proactive environmental enhancement initiatives, such as multi-species Habitat Conservation Plans (HCPs), to balance expanded housing production with environmental quality.

BARRIER REMOVAL

- Convene stakeholders to resolve the construction defect and defect litigation issue. Complementary preventative strategies to consider: efficient dispute resolution mechanisms, home buyer warranties, and increased resources for the training of construction workers and building inspectors.
- Support a State-backed liability insurance pool to make insurance available to small and mid-size housing contractors.
- Streamline and improve the residential entitlement process.
- Promote the use of Master Environmental Impact Reports (EIRs) and specific plan EIRs; provide a new funding mechanism to ensure their use.
- Streamline the California Environmental Quality Act (CEQA) and other permitting processes to expedite housing construction while ensuring that the original intent of protecting the environment is maintained.

“Too many Californians are locked out of the American dream of home ownership. California has one of the lowest home ownership rates of any state in the country. We must begin to develop housing priorities and policies to open wider California’s door to economic expansion and prosperity.”

“Housing: California’s Foundation for Economic Growth,”
California Department of Housing
and Community Development (HCD)



The Crossings transit-oriented development in Mountain View, California

CASE STUDY

Housing Trust Funds Supported by Commercial Real Estate

Currently, about 40 cities around the country have some kind of housing trust fund to guarantee a reliable and predictable source of local funding for housing. Thirteen cities and counties, including San Diego, San Francisco, Sacramento and Santa Monica, have housing trust funds, and at least 10 more cities are considering them, due to spiraling housing costs connected to rapid job growth. One funding mechanism is a jobs-housing impact fee on developers of commercial space. Funds are used to build affordable housing or help people to obtain housing. California State law requires that a “nexus” study be conducted to establish the connection between job growth and housing demand. Most recently, leaders in Sonoma County began the process of exploring a nexus study to address an emerging housing crisis — Santa Rosa was among the five least-affordable housing markets in the nation last year.

Source: Urban and Environmental Policy Institute, Occidental College
Santa Rosa Press Democrat,
February 6, 2001

IMPROVED IMPLEMENTATION AND USE

- Provide technical assistance and incentives so that underused lands can be recycled for housing production. Incentives could include entitlement “fast track” and funding for brownfield cleanup.
- Foster development of appropriate zoning codes to support new models of development, such as mixed-use and higher density development in both new and existing communities.
- Promote innovative housing finance products such as location-efficient mortgages, energy-efficient mortgages and credit enhancement programs.



PHOTO CREDIT: CALIFORNIA RURAL COMMUNITY ASSISTANCE CORPORATION

Oak Forest Apartments affordable rental housing in Arroyo Grande, California



PHOTO CREDIT: LOCAL GOVERNMENT COMMISSION

St. Francis Terrace provides affordable and senior housing in Sacramento, California



PHOTO CREDIT: CALIFORNIA RURAL COMMUNITY ASSISTANCE CORPORATION

Los Adobes de Maria, migrant housing in Santa Maria, California

Specific Financing Strategies to Increase the Supply of Housing for Low-Income Families:

- Increase the annual allocation for the low-income housing tax credit from \$50 million to \$70 million per year to match recently-enacted increases at the federal level and continue to match federal levels in the future.
- Remove barriers to full expenditure of the 20% set-aside of tax increment financing that Community Redevelopment Agencies (CRAs) must allocate for affordable low-income housing. Barriers cited include: difficulties in dealing with multiple funding sources; concerns about increased impacts; and over-subscription of the federal tax credit program. Enforce CRA requirements and make sure CRA projects are built and implemented expeditiously.



Bridgecourt housing in Emeryville, California

- Advocate the repeal of the “10-year Rule” which currently limits recycling of mortgage prepayments into new single-family mortgage revenue bonds.
- Facilitate adoption of local housing trust funds, as employed by 13 California cities, including San Diego, San Francisco, Sacramento and Santa Monica. At least another 10 cities are considering them.

Other Strategies to Increase the Supply of Housing for Low-Income Families:

- Strengthen State Housing Element law and increase community education to ensure implementation of plans, unless formally amended.
- Increase the amount of land zoned for multi-family housing through incentives.
- Ensure that regulations accommodate needs for a variety of housing types, such as second units.

CASE STUDY

Energy-Efficient Mortgages: California Housing Finance Agency (CHFA)

CHFA has rolled out its newly implemented FHA Energy Efficient Mortgage and announced its addition to the first time homebuyer loan program. In response to the Governor's energy initiatives, this new effort from CHFA will help homebuyers save money on their utility bill as they reduce their borrowing costs for their home energy efficiency improvements (water heaters, insulation, double paned windows, etc.). Improvement amounts eligible for financing are either 5% of the property's value (not to exceed \$8,000) or \$4,000, whichever is greater.

Source: California Housing Finance Agency

“From homeless individuals struggling to find shelter, to families being priced out of neighborhoods, helping people find safe, affordable housing is one of the key challenges facing California people.”

John Burton
President pro Tempore
California State Senate